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RUEHBY/AMEMBASSY CANBERRA 1703
RUEHKO/AMEMBASSY TOKYO 1256
RUEHWL/AMEMBASSY WELLINGTON 2117
RHEHNSC/NSC WASHDC
RUEAWJA/DEPT OF JUSTICE WASHDC
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 JAKARTA 003326

SIPDIS

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DEPT FOR EAP, EAP/MTS, INR/EAP, INL FOR BOULDIN
DEPT FOR EEB/IFD/OMA
DOJ/OPDAT FOR LEHMANN/ALEXANDRE
SINGAPORE FOR BAKER
TREASURY FOR IA-BAUKOL
DEPT PASS FEDERAL RESERVE SAN FRANCISCO FOR FINEMAN
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NSC FOR EPHU

E.O. 12958: DECL: 12/05/2017
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SUBJECT: LEGISLATURE CALLS ON PRESIDENT TO TESTIFY RE
BANKING SCANDAL

REF: A. JAKARTA 2648

[1](#)B. JAKARTA 2229

Classified By: Pol/C Joseph Legend Novak, reasons 1.4(b-d).

[1](#)1. (C) SUMMARY: Indonesia's Parliament (DPR) has moved to summon President Yudhoyono to answer questions regarding a complex financial case. Abuse of Central Bank liquidity funds--issued to assist depositors at distressed banks--caused billions of dollars in losses to the state. The Attorney General created a team to reopen the investigation into what happened in June, but has yet to indict anyone. While the likelihood that SBY--who is not accused of any corrupt activities himself--will personally appear is small, the move indicates the desire of the DPR to bolster its image on the anti-corruption front. END SUMMARY.

SBY CALLED ON THE CARPET

[1](#)2. (C) DPR members unanimously agreed December 4 to summon the President to Parliament (a process known as "interpellation") to address the investigation into the Bank Indonesia Liquidity Assistance (BLBI) scandal. (Note: Interpellation is a Constitutionally-sanctioned demand that the President appear before the DPR to answer questions. The President's office has effectively been able to short-circuit prior DPR demands that President Yudhoyono personally appear in regard to UNSCR 1747 on Iran and the East Java mudflow, however.) DPR members Ade Nasution and Dr. Harry Azhar Aziz told us that the move is intended to press the GOI to move the investigation forward and to spur the recovery of stolen state funds.

NOTES ON A SCANDAL

[1](#)3. (U) Bank Indonesia Liquidity Assistance (BLBI) provided liquidity support for depositors at distressed banks beginning in January 1998. Indonesia had around 240 banks before the financial crisis of 1997-98 and now has 130. Many banks failed, were nationalized or bailed out, or were forced

to merge. In some cases, bank owners took their deposits out first, abused the funds, and fled the country. A handful of these are on the AGO's "most corrupt" list. Eventually, bank owners were required to sign a personal guarantee that they would repay the funds. The GOI's Indonesian Bank Restructuring Agency (IBRA) received many property assets as repayment (plantations, buildings, factories, undeveloped property), some of which later turned out to be overvalued. The resultant losses to the state, both from abuse of liquidity credits and overvalued assets of failed banks, totaled in the billions of dollars.

AGO REOPENS INVESTIGATION

¶4. (U) In June, Attorney General Hendarman Supandji announced that he was re-opening the BLBI matter (ref B). The AG appointed a special team of 35 prosecutors to review the case and determine whether any assets could be recovered or criminal charges brought. The AGO has made a public show of calling in major figures for questioning, including a former Coordinating Minister for the Economy and the former head of IBRA.

¶5. (C) Six months on, however, no indictments have been filed and the investigation appears to have stalled. One prosecutor noted that the AGO simply cannot locate the documentary evidence it needs to prove criminal charges or locate stolen assets. This contact suggested that much of the documentation has been intentionally "lost" by individuals seeking to hide their tracks. Several of those involved in abuse of funds fled abroad years ago and trails are cold. A senior economist and advisor to the President said that the Council of Economic Advisors had recommended to SBY that the BLBI cases no longer be pursued in order to

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close the door on this unhappy and tumultuous period of Indonesia's history. The State-Owned Asset Management Company (PPA), IBRA's successor organization, continues to divest thousands of properties which the GOI nationalized during the financial crisis. Unfortunately, 80% of them did not have free and clear legal title and PPA has been slowly and painstakingly trying to clear them and find buyers.

TRYING TO SPUR ACTION

¶6. (C) The DPR's move indicates a desire to bolster the body's image vis-a-vis corruption. SBY--who is only being accused of not pressing the investigation enough and not of any corruption himself--has made several speeches in recent weeks emphasizing his commitment to the anti-corruption campaign and promising to wash the "dirty dishes" left over from past activities. The DPR, meanwhile, is consistently viewed as a den of money politics itself. The concrete impact of the interpellation effort, however, will be minimal at best. The President won't show; the legislature knows this and is content to score some political points.

HUME